

AGENDA ITEM 5
AUDIT RESOLUTION STATUS - REAL ESTATE AUDIT FINDINGS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2008

Partner/Property	Auditor's Finding and Recommendation	Auditee Response and Status per Investment Office	Finding Status / Auditor Comment
IHP Capital Partners on behalf of PHBIA-Advisor Level (January 2007)	2. (III.B) Portfolio Management: Project Commitment Fee - The Auditors noted that the budgeted project commitment fee was included in the basis for calculating the project commitment fee. The Agreement does not state that the actual project commitment fee should be excluded; however, the Auditors believe that the inclusion of the project commitment fee within the fee basis overstates the actual fee billed. The Auditors' recalculation of this fee resulted in a total overpayment of \$10,966. The Auditors recommend that a credit be provided to CalPERS and Prudential Insurance Company of America in the amount of \$10,070 and \$896, respectively.	2. (III.B) IHP Partners response: IHP Capital Partners disagrees with the interpretation of Section 3.03 by the auditor. The project commitment fee should not be excluded from the basis of the fee. The agreement states "for purposes of calculating the Project Commitment Fee "project costs" shall include all costs and expenses expected to be incurred by the Project Owner in owning, developing,...as set forth in the Developer's pro forma budget." The Project Commitment Fee is a cost incurred by the Project Owner and it is in the pro forma budget. Response from Investment Office: The Investment Office has confirmed reimbursement.	2. (III.B) COMPLETE: The Auditors concur with management's corrective action.

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SHP Senior Housing Fund, LLC General Partner Level (Oct 2007)	<p>1. (I) Preliminary Procedures: Accounting Manual - The Auditors noted that management does not maintain an accounting manual.</p> <p>The Auditors recommend that management draft an accounting manual documenting policies, procedures and responsibilities of key positions within the Fund.</p>	<p>1. (I) SHP Asset Management response: Management indicated that they will implement this recommendation.</p> <p>Response from Investment Office: On December 8, 2008, SHP withdrew as the General Partner for SHP Senior Housing Fund, LLC. Currently, AEW Capital Management, L.P. (AEW), has been hired in an Advisory/Managerial capacity over the Assets in the SHP Senior Housing Fund, LLC. As the new Advisor/Manager, AEW has taken corrective action to mitigate the December 2007 SHP findings, including providing a copy of the AEW Accounting Manual to the CalPERS Investment Office. In addition, AEW was reviewed by the same external Real Estate Audit firm that performed the review on SHP Senior Housing Fund, and based on current circumstances, the audit firm agrees that the findings should be considered closed.</p>	<p>1. (I) COMPLETE: The Auditors concur with management's corrective action.</p>

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SHP Senior Living Services, LLC Property Management Level (Oct 2007)	3. (III) Internal Controls: Accounting Manual - The Auditors noted that property management does not maintain an accounting manual. The Auditors recommend that property management draft an accounting manual documenting the policies, procedures and responsibilities of key positions at the property.	3. (III) SHP Asset Management response: Management indicated that Senior Living Services, LLC ("SLS") will implement this recommendation. Response from Investment Office: On December 8, 2008, SHP withdrew as the General Partner for SHP Senior Housing Fund, LLC. Currently, AEW Capital Management, L.P. (AEW), has been hired in an Advisory/Managerial capacity over the Assets in the SHP Senior Housing Fund, LLC. As the new Advisor/Manager, AEW has taken corrective action to mitigate the December 2007 SHP findings, including providing a copy of the AEW Accounting Manual to the CalPERS Investment Office. In addition, AEW was reviewed by the same external Real Estate Audit firm that performed the review on SHP Senior Housing Fund, and the audit firm agrees that the findings should be considered closed.	3. (III) COMPLETE: The Auditors concur with management's corrective action.

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SHP Senior Living Services, LLC Property Management Level (Oct 2007)	<p>4. (IV) Accounting and Financial Procedures: Bank Reconciliation - The Auditors noted 21 checks which had been outstanding in excess of 90 days totaling \$12,248. Property management's policy is to hold outstanding checks for 5 years.</p> <p>The Auditors recommend that property management review its policies regarding outstanding checks. Outstanding checks should be reissued or reversed every six months.</p>	<p>4. (IV) SHP Asset Management response: Effective immediately, management will void any check that has been outstanding for more than 6 months. Management will contact the payee to determine if the check should be reissued or reversed. If the payee cannot be contacted, the check amount will be recorded in an escheatment account and remitted to the State of Florida in accordance with the State regulations.</p> <p>Response from Investment Office: On December 8, 2008, SHP withdrew as the General Partner for SHP Senior Housing Fund, LLC. Currently, AEW Capital Management, L.P. (AEW), has been hired in an Advisory/Managerial capacity over the Assets in the SHP Senior Housing Fund, LLC. As the new Advisor/Manager, AEW has taken corrective action to mitigate the December 2007 SHP findings, including providing a copy of the AEW Accounting Manual to the CalPERS Investment Office. In addition, AEW was reviewed by the same external Real Estate Audit firm that performed the review on SHP Senior Housing Fund, and the audit firm agrees that the findings should be considered closed.</p>	<p>4. (IV) COMPLETE: The Auditors concur with management's corrective action.</p>

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SHP Senior Living Services, LLC Property Management Level (Oct 2007)	5. (VI) Operations and Maintenance: Third-Party Service Contracts - The Auditors noted deficiencies with regard to third-party contractor's certificates of insurance and service contracts. The Auditors recommend that property management remedy the deficiencies as noted in the audit report.	5. (VI) SHP Asset Management response: Management agreed with the Auditors' recommendation and will remedy the deficiencies. Response from Investment Office: On December 8, 2008, SHP withdrew as the General Partner for SHP Senior Housing Fund, LLC. Currently, AEW Capital Management, L.P. (AEW), has been hired in an Advisory/Managerial capacity over the Assets in the SHP Senior Housing Fund, LLC. As the new Advisor/Manager, AEW has taken corrective action to mitigate the December 2007 SHP findings, including providing a copy of the AEW Accounting Manual to the CalPERS Investment Office. In addition, AEW was reviewed by the same external Real Estate Audit firm that performed the review on SHP Senior Housing Fund, and the audit firm agrees that the findings should be considered closed.	5. (VI) COMPLETE: The Auditors concur with management's corrective action.

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<p>The Hampshire Companies</p> <p>18-01 Pollitt</p> <p>Property Level</p> <p>(Feb 2008)</p>	<p>3. (IV.A-C) Accounting and Financial Procedures: Disbursement Testing – The Auditors noted three payments which are considered the responsibility of property management pursuant to Section 3.2 of the Agreement. (A) A disbursement to the property manager totaling \$1,856.45 for the reimbursement of his office furniture was allocated to all properties he manages based on their square feet. \$575.75 was allocated to 18-01 Pollitt. (B) A \$350 disbursement charged to the property related to an annual IT Support & Maintenance Fee. (C) A charge of \$72.77 related to the purchase of a printer cable.</p> <p>The Auditors recommend that property management reimburse the property for the non-allowable expenses listed above. They further recommend property management refrain from charging overhead costs to the property.</p>	<p>3. (IV.A-C) The Hampshire Companies response: We have ceased charging such expenses to the Fund.</p> <p>Response from Investment Office: Hampshire has ceased charging such expenses to the property and the Investment Office confirmed reimbursement of the questionable costs.</p>	<p>3. (IV.A-C) COMPLETE: The Auditors concur with management's corrective action.</p>

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The Hampshire Companies 550 Research Property Level (Feb 2008)	12. (VI.A.1-2) Operations and Maintenance: Third-Party Contractor Insurance – The Auditors noted two insurance discrepancies from Article 2.7 (D)(iv) of the Agreement, which requires limits not less than \$5,000,000 for both commercial general liability and automobile liability and \$1,000,000 for employer's liability, as follows: (1) The current insurance certificate for one vendor supported coverage for \$1,000,000 per occurrence for commercial general liability insurance, \$1,000,000 for automobile liability insurance, and \$500,000 for employer's liability insurance. (2) The current insurance certificate for another vendor supported coverage of \$2,000,000 for automobile liability insurance. We recommend that property management obtain certificates of insurance from the vendors containing insurance coverage required by the terms of the Agreement.	12. (VI.A.1-2) The Hampshire Companies response: We have notified the vendor of the requirement and will obtain the new Insurance Certificate. Response from Investment Office: Hampshire companies indicated that the vendor explained that the increased level of insurance would increase costs of services provided. Hampshire has accepted the coverage terms as-is because to change a vendor would not be cost-effective. Investment staff agrees with Hampshire's justification and decision of granting exceptions to the insurance requirements. Investment staff recommends this audit finding be closed.	12. (VI.A.1-2) COMPLETE: Notwithstanding property management's response, the Auditors recommendation remains as previously stated. The Auditors also recommend that Hampshire document in a memo to the Investment Office that reduced levels of insurance coverage has been reviewed and accepted by Hampshire. Given that the Investment Office has accepted Hampshire's justification of granting an exception, this finding is considered complete.

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